

**Tennessee Board of Regents
Middle Tennessee State University**

**For the Year Ended
June 30, 1997**

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Editor

February 6, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. James A. Walker, President
Middle Tennessee State University
110 Cope Administration Building
Murfreesboro, Tennessee 37132

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Middle Tennessee State University, for the year ended June 30, 1997. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The university has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/th
97/108

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Middle Tennessee State University
For the Year Ended June 30, 1997

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDING

Pell Awards Not Recalculated When Students Do Not Begin Attendance in Some Classes

The university does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes because there is no procedure in place to determine if Pell recipients do not begin attendance in some classes. The lack of a procedure could result in an overaward to some recipients (page 7).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

SPECIAL INVESTIGATION

A review of the university's financial aid office is currently ongoing, and a separate report will be issued.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

**Audit Report
Tennessee Board of Regents
Middle Tennessee State University
For the Year Ended June 30, 1997**

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Tennessee Board of Regents Middle Tennessee State University For the Year Ended June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Middle Tennessee State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Middle Tennessee State University was first established in 1911 as Middle Tennessee State Normal School in Murfreesboro, Tennessee. In 1925, when the General Assembly provided for three teachers’ colleges—one in each of the grand divisions—Middle Tennessee State Normal School became Middle Tennessee State Teachers’ College and gained the power to grant the Bachelor of Science degree. The college’s name was changed to Middle Tennessee State College by an act of the legislature in 1943 and to Middle Tennessee State University by a special legislative act in 1956. The university is composed of the Graduate School, the Office of Continuing Studies and Public Service, and five undergraduate colleges—Basic and Applied Sciences, Business, Education, Liberal Arts, and Mass Communications.

ORGANIZATION

The governance of Middle Tennessee State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1996, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1997, and for comparative purposes, the year ended June 30, 1996. Middle Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and OMB Circular A-133.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

A special investigation of the university's financial aid office is currently ongoing, and a separate report will be issued.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management's response, is detailed in the finding and recommendation.

Fairness of Financial Statement Presentation

The university has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the university's financial statements.

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

November 4, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1997, and have issued our report thereon dated November 4, 1997. Our report was qualified because the university omitted the liability for accrued compensated absences from the balance sheet. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Honorable W. R. Snodgrass
November 4, 1997
Page Two

We did, however, note one immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted certain other, less significant, instances of noncompliance that we have reported to the university's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that we have reported to the university's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/th

FINDING AND RECOMMENDATION

Pell awards are not recalculated when students do not begin attendance in some classes

Finding

The university does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes. The awards are not recalculated because the student financial aid office does not have a procedure in place to determine if Pell recipients do not begin attendance in some classes. The unofficial withdrawal of student financial aid recipients from all classes is monitored; however, those who fail to attend some of their classes are not detected through this procedure.

The *Federal Student Financial Aid Handbook*, Chapter 4, page 64, states, “If the student does not begin attendance in all of his or her classes, the school must recalculate the student’s [Pell] award based on the lower enrollment status.”

The lack of a procedure to determine if a Pell recipient has failed to begin attendance in some, but not all, classes could result in an overaward to some recipients.

Recommendation

The Director of Student Financial Aid should develop and implement a procedure to determine if Pell recipients begin attendance in all classes. Pell awards should be recalculated whenever a student does not begin attendance in some classes.

Management’s Comment

We concur with the finding and recommendation. The university will develop and implement procedures beginning with the fall 1998 semester to determine if Pell recipients begin class attendance. Pell awards will be recalculated for students that do not begin attendance in some classes.

Independent Auditor's Report

November 4, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of Middle Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the university has omitted the liability for accrued compensated absences from the accompanying balance sheets which should be included to conform with generally accepted accounting principles.

The Honorable W. R. Snodgrass
November 4, 1997
Page Two

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Middle Tennessee State University, as of June 30, 1997, and June 30, 1996, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 1997, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/th

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997	June 30, 1996		June 30, 1997	June 30, 1996
ASSETS			LIABILITIES AND FUND BALANCES		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 3 and 4)	\$ 14,426,449.24	\$ 14,297,052.74	Liabilities:		
Accrued interest receivable	95,095.89	-	Accounts payable	\$ 858,535.77	\$ 1,456,495.22
Accounts receivable (net of allowance of \$576,080.26 at June 30, 1997, and \$385,144.56 at June 30, 1996)	1,446,079.58	1,102,328.46	Accrued liabilities	5,804,131.96	5,561,175.52
Inventories	451,174.75	438,902.52	Student deposits	82,738.56	38,583.33
Prepaid expenses	263,515.27	190,699.85	Deferred revenue	4,164,289.50	3,850,758.20
Due from restricted current funds	818,914.15	1,551,042.79	Other liabilities	36,513.94	57,022.78
			Total liabilities	10,946,209.73	10,964,035.05
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	1,228,146.74	918,741.99
			Allocation for encumbrances	866,066.04	1,015,824.07
			Allocation for designated appropriations	6,944.02	62,819.26
			Discretionary allocations:		
			Allocation for subsequent budget	1,747,260.00	1,758,300.00
			Allocation for athletic contingency	63,967.01	266,823.54
			Allocation for technology access fee	199,500.22	276,741.73
			Unallocated	2,443,135.12	2,316,740.72
			Total fund balances	6,555,019.15	6,615,991.31
Total general	17,501,228.88	17,580,026.36	Total general	17,501,228.88	17,580,026.36
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	2,192,160.62	1,752,232.64	Liabilities:		
Accounts receivable (net of allowance of \$30,215.43 at June 30, 1997, and \$34,549.03 at June 30, 1996)	610,899.67	458,590.03	Accounts payable	229,320.07	130,377.50
Inventories	1,651,990.29	1,636,623.34	Accrued liabilities	44,026.77	43,059.60
			Student deposits	654,391.03	376,293.51
			Deferred revenue	216,010.50	195,538.75
			Total liabilities	1,143,748.37	745,269.36
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	2,330,546.96	2,197,888.87
			Allocation for encumbrances	159,389.17	36,448.09
			Discretionary allocation:		
			Allocation for contingencies	804,540.00	771,520.00
			Unallocated	16,826.08	96,319.69
			Total fund balances	3,311,302.21	3,102,176.65
Total auxiliary enterprises	4,455,050.58	3,847,446.01	Total auxiliary enterprises	4,455,050.58	3,847,446.01
Total unrestricted	21,956,279.46	21,427,472.37	Total unrestricted	21,956,279.46	21,427,472.37
Restricted:			Restricted:		
Grants receivable	1,978,804.30	2,539,628.09	Liabilities:		
			Accounts payable	179,857.03	215,528.97
			Accrued liabilities	18,524.06	16,761.35
			Due to unrestricted current funds	818,914.15	1,551,042.79
			Total liabilities	1,017,295.24	1,783,333.11
			Fund balance	961,509.06	756,294.98
Total restricted	1,978,804.30	2,539,628.09	Total restricted	1,978,804.30	2,539,628.09
Total current funds	\$ 23,935,083.76	\$ 23,967,100.46	Total current funds	\$ 23,935,083.76	\$ 23,967,100.46
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 368,191.99	\$ 415,051.50	Fund balances:		
Notes receivable (net of allowance of \$704,578.77 at June 30, 1997, and \$690,107.87 at June 30, 1996)	3,742,112.98	3,803,550.75	U.S. government grants refundable	\$ 2,666,211.73	\$ 2,884,018.97
Accrued interest receivable (net of allowance of \$124,779.00 at June 30, 1997)	45,876.30	168,936.67	University funds:		
			Restricted - matching	614,193.77	603,389.08
			Restricted - other	852,414.16	869,860.19
			Unrestricted	23,361.61	30,270.68
Total loan funds	\$ 4,156,181.27	\$ 4,387,538.92	Total loan funds	\$ 4,156,181.27	\$ 4,387,538.92
Endowment and similar funds:			Endowment and similar funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 165,000.00	\$ 893,000.00	Fund balances:		
			Quasi-endowment:		
			Restricted	\$ 9,900.00	\$ 9,900.00
			Unrestricted	155,100.00	883,100.00
Total endowment and similar funds	\$ 165,000.00	\$ 893,000.00	Total endowment and similar funds	\$ 165,000.00	\$ 893,000.00

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997	June 30, 1996		June 30, 1997	June 30, 1996
ASSETS			LIABILITIES AND FUND BALANCES		
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	\$ 6,572,124.34	\$ 6,279,582.69	Liabilities:		
Investments (Note 5)	6,300,000.00	-	Accounts payable	\$ 1,897,636.48	\$ 112,880.36
LGIP deposit - capital projects	10,757,394.99	8,861,247.85	Notes payable (Note 7)	4,849.79	2,287,452.82
Funds on deposit with State Treasurer (Note 5)	4,849.79	2,287,452.82	Total liabilities	1,902,486.27	2,400,333.18
Accounts receivable	81,280.79	135,582.74			
Other assets	1,500.00	-	Fund balances:		
			Restricted	67,410.63	103,676.42
			Unrestricted (Note 6)	21,747,253.01	15,059,856.50
			Total fund balances	21,814,663.64	15,163,532.92
Total unexpended plant	23,717,149.91	17,563,866.10	Total unexpended plant	23,717,149.91	17,563,866.10
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	8,170,487.89	11,528,282.50	Liabilities:		
			Accounts payable	-	11,003.31
			Fund balance:		
			Unrestricted (Note 6)	8,170,487.89	11,517,279.19
Total renewals and replacements	8,170,487.89	11,528,282.50	Total renewals and replacements	8,170,487.89	11,528,282.50
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	1,133,054.36	6,652,037.82	Liabilities:		
Investments (Notes 4 and 5)	-	300,000.00	Accrued interest payable	181,881.61	63,550.24
Assets with trustee (Note 5)	1,909,413.54	935,019.43	Fund balances:		
Accrued interest receivable	129,510.52	33,954.96	Restricted (Note 5)	1,909,413.54	935,019.43
Accounts receivable	118,867.22	-	Unrestricted	1,199,550.49	6,922,442.54
			Total fund balances	3,108,964.03	7,857,461.97
Total retirement of indebtedness	3,290,845.64	7,921,012.21	Total retirement of indebtedness	3,290,845.64	7,921,012.21
Investment in plant:			Investment in plant:		
Land	1,164,177.97	1,163,327.97	Liabilities:		
Buildings	97,359,560.48	95,760,964.72	Notes payable (Note 7)	6,585,037.35	11,977,547.18
Improvements other than buildings	21,579,432.98	20,820,701.54	Bonds payable (Note 7)	18,563,910.45	6,581,277.73
Equipment	42,199,222.53	39,690,556.41	Total liabilities	25,148,947.80	18,558,824.91
Library books	30,398,400.00	12,333,420.00	Fund balance:		
Other library holdings	6,523,784.00	6,278,636.00	Net investment in plant	212,587,733.34	168,123,771.60
Construction in progress	38,235,578.18	10,434,994.87	Total investment in plant	237,736,681.14	186,682,596.51
Livestock	276,525.00	199,995.00			
Total investment in plant	237,736,681.14	186,682,596.51	Total plant funds	\$ 272,915,164.58	\$ 223,695,757.32
Total plant funds	\$ 272,915,164.58	\$ 223,695,757.32			
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 523,926.70	\$ 559,906.12	Liabilities:		
Accounts receivable	2,040.33	28,893.43	Accounts payable	\$ 18,535.20	\$ 402,594.36
			Deposits held in custody for others	308,677.21	185,980.19
			Other liabilities	198,754.62	225.00
Total nonfoundation funds	525,967.03	588,799.55	Total nonfoundation funds	525,967.03	588,799.55
Foundation funds:			Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	3,621,381.41	1,623,596.23	Liabilities:		
Investments (Notes 4 and 5)	12,165,601.07	10,781,086.51	Accounts payable	26,984.21	7,899.61
Accrued interest receivable	140,329.48	103,404.60	Notes payable (Note 7)	2,000,000.00	-
Accounts receivable	-	130,810.21	Deposits held in custody for foundation	18,975,344.12	13,358,118.62
Land and buildings	4,363,367.31	175,442.11			
Equipment	651,412.90	492,828.75			
Livestock	58,460.66	57,074.32			
Other assets	1,775.50	1,775.50			
Total foundation funds	21,002,328.33	13,366,018.23	Total foundation funds	21,002,328.33	13,366,018.23
Total agency funds	\$ 21,528,295.36	\$ 13,954,817.78	Total agency funds	\$ 21,528,295.36	\$ 13,954,817.78

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 105,005,642.03	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	16,090,712.67	-	-	-	-	-	-	-
Tuition and fees	-	113,263.80	-	-	-	-	-	-
State appropriations	-	361,299.00	-	-	20,383,675.41	-	76,701.36	-
Federal grants and contracts	-	7,806,339.28	33,061.00	-	469,083.48	-	72,134.00	-
State grants and contracts	-	2,449,897.47	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,308,314.99	26,526.50	-	549,631.00	-	-	-
Endowment income	-	474,233.88	-	-	-	-	-	-
Investment income	-	-	19,867.03	-	926,462.81	476,761.48	438,507.59	-
Interest on loans receivable	-	-	122,147.88	-	-	-	-	-
Reduction in doubtful accounts	-	-	56,044.42	-	-	-	-	-
Proceeds from notes	-	-	-	-	4,319,887.14	-	-	-
Decrease in indebtedness	-	-	-	-	2,282,603.03	-	-	-
Equipment use charges	-	-	-	-	-	1,150,183.85	-	-
Student debt service fees	-	-	-	-	-	-	1,663,734.35	-
Addition to debt service reserve	-	-	-	-	-	-	974,394.11	-
Expended for plant facilities (including \$3,601,924.27 charged to current fund expenditures)	-	-	-	-	-	-	-	36,762,101.90
Library holdings revaluation (Note 13)	-	-	-	-	-	-	-	16,872,788.28
Retirement of indebtedness	-	-	-	-	-	-	-	1,239,417.52
Equipment inventory adjustments	-	-	-	-	-	-	-	243,671.17
Other	-	-	17,110.89	-	-	4,936.14	-	156,859.28
Total revenues and other additions	121,096,354.70	12,513,348.42	274,757.72	-	28,931,342.87	1,631,881.47	3,225,471.41	55,274,838.15
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	104,568,334.77	12,147,766.85	-	-	-	-	-	-
Auxiliary enterprise expenditures	13,276,965.56	18,782.09	-	-	-	-	-	-
Indirect costs recovered	-	135,418.95	-	-	-	-	-	-
Refunded to grantors	-	6,166.45	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	124,800.75	-	-	-	-	-
Provision for doubtful accounts	-	-	321,140.09	-	-	-	-	-
Administrative and collection costs	-	-	71,194.79	-	-	-	6,891.49	-
Expended for plant facilities	-	-	-	-	32,110,878.87	1,049,298.76	-	-
Expended for noncapital items	-	-	-	-	3,188,126.10	361,272.50	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,239,417.52	-
Interest on indebtedness	-	-	-	-	-	-	1,096,849.74	-
Increase in indebtedness	-	-	-	-	-	-	-	7,882,252.69
Disposal of plant facilities	-	-	-	-	-	-	-	2,928,623.72
Total expenditures and other deductions	117,845,300.33	12,308,134.34	517,135.63	-	35,299,004.97	1,410,571.26	2,343,158.75	10,810,876.41

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)								
Mandatory:								
Loan fund matching grant	(11,020.26)	-	11,020.26	-	-	-	-	-
Principal and interest	(577,455.65)	-	-	-	-	-	577,455.65	-
Nonmandatory:								
Unrestricted current funds	1,917,000.00	-	-	(728,000.00)	(539,000.00)	(650,000.00)	-	-
Unexpended plant	(267,450.00)	-	-	-	13,564,825.00	(4,947,375.00)	(8,350,000.00)	-
Renewals and replacements	(2,022,241.31)	-	-	-	(7,032.18)	2,029,273.49	-	-
Retirement of indebtedness	(2,141,733.75)	-	-	-	-	-	2,141,733.75	-
Total transfers	<u>(3,102,900.97)</u>	<u>-</u>	<u>11,020.26</u>	<u>(728,000.00)</u>	<u>13,018,792.82</u>	<u>(3,568,101.51)</u>	<u>(5,630,810.60)</u>	<u>-</u>
Net increases (decreases) for the year	148,153.40	205,214.08	(231,357.65)	(728,000.00)	6,651,130.72	(3,346,791.30)	(4,748,497.94)	44,463,961.74
Fund balances at beginning of year	<u>9,718,167.96</u>	<u>756,294.98</u>	<u>4,387,538.92</u>	<u>893,000.00</u>	<u>15,163,532.92</u>	<u>11,517,279.19</u>	<u>7,857,461.97</u>	<u>168,123,771.60</u>
Fund balances at end of year	<u>\$ 9,866,321.36</u>	<u>\$ 961,509.06</u>	<u>\$ 4,156,181.27</u>	<u>\$ 165,000.00</u>	<u>\$ 21,814,663.64</u>	<u>\$ 8,170,487.89</u>	<u>\$ 3,108,964.03</u>	<u>\$ 212,587,733.34</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 100,803,057.37	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	15,430,403.21	-	-	-	-	-	-	-
Tuition and fees	-	110,121.10	-	-	-	-	-	-
State appropriations	-	360,700.00	-	-	8,289,775.25	-	73,643.77	-
Federal grants and contracts	-	7,503,334.83	61,614.75	-	-	-	-	-
State grants and contracts	-	2,071,740.96	-	-	-	-	-	-
Private gifts, grants, and contracts	-	972,690.35	33,957.72	-	-	-	-	186,000.00
Endowment income	-	470,819.81	-	-	-	-	-	-
Investment income	-	-	16,664.12	-	899,445.21	478,821.86	253,727.04	-
Interest on loans receivable	-	-	120,553.77	-	-	-	-	-
Reduction in doubtful accounts	-	-	2,657.49	-	-	-	-	-
Proceeds from notes	-	-	-	-	2,660,000.00	-	-	-
Equipment use charges	-	-	-	-	-	1,089,095.00	-	-
Student debt service fees	-	-	-	-	-	-	1,621,491.20	-
Expended for plant facilities (including \$4,053,241.73 charged to current fund expenditures)	-	-	-	-	-	-	-	17,143,581.77
Retirement of indebtedness	-	-	-	-	-	-	-	777,957.35
Equipment inventory adjustments	-	-	-	-	-	-	-	37,444.95
Other	-	-	9,789.77	-	-	30,288.95	72,134.00	18,047.50
Total revenues and other additions	116,233,460.58	11,489,407.05	245,237.62	-	11,849,220.46	1,598,205.81	2,020,996.01	18,163,031.57
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	100,073,385.35	11,364,561.07	-	-	-	-	-	-
Auxiliary enterprise expenditures	13,199,475.38	5,166.33	-	-	-	-	-	-
Indirect costs recovered	-	104,841.41	-	-	-	-	-	-
Refunded to grantors	-	2,064.16	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	56,313.45	-	-	-	-	-
Provision for doubtful accounts	-	-	98,231.36	-	-	-	-	-
Administrative and collection costs	-	-	65,730.26	-	-	-	9,259.30	-
Expended for plant facilities	-	-	-	-	12,112,307.95	978,032.09	-	-
Expended for noncapital items	-	-	-	-	1,108,782.72	952,500.43	-	-
Retirement of indebtedness	-	-	-	-	-	-	777,957.35	-
Interest on indebtedness	-	-	-	-	-	-	812,685.98	-
Increase in indebtedness	-	-	-	-	1,362,026.13	-	-	1,297,973.87
Disposal of plant facilities	-	-	-	-	-	-	-	959,341.35
Library holdings revaluation	-	-	-	-	-	-	-	901,899.28
Other	-	2,905.56	-	-	140,000.00	-	-	6,995.00
Total expenditures and other deductions	113,272,860.73	11,479,538.53	220,275.07	-	14,723,116.80	1,930,532.52	1,599,902.63	3,166,209.50

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)</u>								
Mandatory:								
Loan fund matching grant	(20,538.25)	-	20,538.25	-	-	-	-	-
Principal and interest	(505,099.43)	-	-	-	-	-	505,099.43	-
Nonmandatory:								
Unrestricted current funds	2,600,000.00	-	-	(2,600,000.00)	-	-	-	-
Unexpended plant	(440,232.00)	-	-	-	708,787.75	(183,555.75)	(85,000.00)	-
Renewals and replacements	(2,564,854.40)	-	-	-	-	2,564,854.40	-	-
Retirement of indebtedness	(1,890,966.50)	-	-	-	-	-	1,890,966.50	-
Total transfers	(2,821,690.58)	-	20,538.25	(2,600,000.00)	708,787.75	2,381,298.65	2,311,065.93	-
Net increases (decreases) for the year	138,909.27	9,868.52	45,500.80	(2,600,000.00)	(2,165,108.59)	2,048,971.94	2,732,159.31	14,996,822.07
Fund balances at beginning of year	9,579,258.69	746,426.46	4,342,038.12	3,493,000.00	17,328,641.51	9,468,307.25	5,125,302.66	153,126,949.53
Fund balances at end of year	\$ <u>9,718,167.96</u>	\$ <u>756,294.98</u>	\$ <u>4,387,538.92</u>	\$ <u>893,000.00</u>	\$ <u>15,163,532.92</u>	\$ <u>11,517,279.19</u>	\$ <u>7,857,461.97</u>	\$ <u>168,123,771.60</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 36,098,132.36	\$ 94,677.52	\$ 36,192,809.88
State appropriations	63,529,000.00	366,499.97	63,895,499.97
Federal grants and contracts	102,740.79	7,775,859.09	7,878,599.88
State grants and contracts	121,213.27	2,296,122.02	2,417,335.29
Local grants and contracts	2,900.08	15,470.43	18,370.51
Private gifts, grants, and contracts	-	1,131,258.67	1,131,258.67
Endowment income	10,391.46	467,879.15	478,270.61
Sales and services of educational activities	4,283,341.70	-	4,283,341.70
Sales and services of auxiliary enterprises	16,090,712.67	18,782.09	16,109,494.76
Other sources	857,922.37	-	857,922.37
Total current revenues	<u>121,096,354.70</u>	<u>12,166,548.94</u>	<u>133,262,903.64</u>
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	57,058,644.06	1,174,965.12	58,233,609.18
Research	1,363,026.44	607,978.00	1,971,004.44
Public service	1,950,289.53	2,357,894.38	4,308,183.91
Academic support	9,004,105.83	51,187.09	9,055,292.92
Student services	11,552,405.66	682,023.45	12,234,429.11
Institutional support	10,028,324.08	143,208.93	10,171,533.01
Operation and maintenance of plant	9,727,779.69	1,471.64	9,729,251.33
Scholarships and fellowships	3,883,759.48	7,129,038.24	11,012,797.72
Total educational and general expenditures	104,568,334.77	12,147,766.85	116,716,101.62
Mandatory transfer for:			
Loan fund matching grant	11,020.26	-	11,020.26
Nonmandatory transfers for:			
Endowment and similar funds	(728,000.00)	-	(728,000.00)
Unexpended plant	(271,550.00)	-	(271,550.00)
Renewals and replacements	(650,000.00)	-	(650,000.00)
Retirement of indebtedness	2,141,733.75	-	2,141,733.75
Total educational and general expenditures and transfers	<u>105,071,538.78</u>	<u>12,147,766.85</u>	<u>117,219,305.63</u>
Auxiliary enterprises:			
Expenditures	13,276,965.56	18,782.09	13,295,747.65
Mandatory transfer for:			
Principal and interest	577,455.65	-	577,455.65
Nonmandatory transfer for:			
Renewals and replacements	2,022,241.31	-	2,022,241.31
Total auxiliary enterprises	<u>15,876,662.52</u>	<u>18,782.09</u>	<u>15,895,444.61</u>
Total expenditures and transfers	<u>120,948,201.30</u>	<u>12,166,548.94</u>	<u>133,114,750.24</u>
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues			
	-	346,799.48	346,799.48
Indirect costs recovered	-	(135,418.95)	(135,418.95)
Refunded to grantors	-	(6,166.45)	(6,166.45)
Net increases in fund balances	<u>\$ 148,153.40</u>	<u>\$ 205,214.08</u>	<u>\$ 353,367.48</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
MIDDLE TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1996

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 33,440,909.54	\$ 110,029.84	\$ 33,550,939.38
State appropriations	61,919,800.00	373,089.30	62,292,889.30
Federal grants and contracts	97,776.65	7,481,069.12	7,578,845.77
State grants and contracts	86,259.89	1,973,790.74	2,060,050.63
Local grants and contracts	1,785.80	-	1,785.80
Private gifts, grants, and contracts	-	959,508.44	959,508.44
Endowment income	143,867.75	467,073.63	610,941.38
Sales and services of educational activities	4,233,436.29	-	4,233,436.29
Sales and services of auxiliary enterprises	15,430,403.21	5,166.33	15,435,569.54
Other sources	879,221.45	-	879,221.45
Total current revenues	<u>116,233,460.58</u>	<u>11,369,727.40</u>	<u>127,603,187.98</u>
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	53,868,823.01	1,352,877.91	55,221,700.92
Research	1,165,766.14	586,487.02	1,752,253.16
Public service	1,933,987.21	2,166,197.93	4,100,185.14
Academic support	8,845,419.61	69,352.88	8,914,772.49
Student services	11,350,962.44	481,242.11	11,832,204.55
Institutional support	10,661,112.65	24,217.62	10,685,330.27
Operation and maintenance of plant	8,889,274.62	-	8,889,274.62
Scholarships and fellowships	3,358,039.67	6,684,185.60	10,042,225.27
Total educational and general expenditures	100,073,385.35	11,364,561.07	111,437,946.42
Mandatory transfer for:			
Loan fund matching grant	20,538.25	-	20,538.25
Nonmandatory transfers for:			
Endowment and similar funds	(2,600,000.00)	-	(2,600,000.00)
Unexpended plant	440,232.00	-	440,232.00
Renewals and replacements	839,026.00	-	839,026.00
Retirement of indebtedness	1,890,966.50	-	1,890,966.50
Total educational and general expenditures and transfers	<u>100,664,148.10</u>	<u>11,364,561.07</u>	<u>112,028,709.17</u>
Auxiliary enterprises:			
Expenditures			
Mandatory transfer for:	13,199,475.38	5,166.33	13,204,641.71
Principal and interest	505,099.43	-	505,099.43
Nonmandatory transfer for:			
Renewals and replacements	1,725,828.40	-	1,725,828.40
Total auxiliary enterprises	<u>15,430,403.21</u>	<u>5,166.33</u>	<u>15,435,569.54</u>
Total expenditures and transfers	<u>116,094,551.31</u>	<u>11,369,727.40</u>	<u>127,464,278.71</u>
OTHER ADDITION (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues			
	-	119,679.65	119,679.65
Indirect costs recovered	-	(104,841.41)	(104,841.41)
Refunded to grantors	-	(2,064.16)	(2,064.16)
Expired grants	-	(2,905.56)	(2,905.56)
Net increases in fund balances	<u>\$ 138,909.27</u>	<u>\$ 9,868.52</u>	<u>\$ 148,777.79</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements
June 30, 1997, and June 30, 1996**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The university is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

BASIS OF PRESENTATION

The financial statements of the university have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

BASIS OF ACCOUNTING

The financial statements of the university have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings, (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement, and (3) nonmandatory transfers, for all other cases.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include residence halls and family housing, food services, student stores, vending, the post office, the recreation center, telecommunications, and the parking authority. Restricted current

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

LGIP DEPOSIT-CAPITAL PROJECTS

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

INVENTORIES

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average cost or first-in, first-out basis.

ALLOCATION FOR WORKING CAPITAL

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

PLANT ASSETS

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books and other library holdings are valued at various standardized values which approximate current costs. Library books are valued at \$48 per volume at June 30, 1997, and \$20 per volume at June 30, 1996. Livestock is valued at estimated market value. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

MIDDLE TENNESSEE STATE UNIVERSITY FOUNDATION

The university is the sole beneficiary of the Middle Tennessee State University Foundation. This private, nonprofit foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled by the university, and the assets and liabilities of the foundation are included in the agency funds on the university's balance sheet.

FEDERAL DIRECT LOAN PROGRAM

The university participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the university. The university acts as an agent for the U.S. government in disbursing funds to students.

NOTE 2. COMPENSATED ABSENCES

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences and related benefits be recorded as earned. The university's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by \$2,898,167 at June 30, 1997, and \$2,826,484 at June 30, 1996, increased the unrestricted current fund expenditures by \$71,683 for the year ended June 30, 1997, and \$191,405 for the year ended June 30, 1996.

NOTE 3. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1997, cash and cash equivalents consisted of \$13,042,843.80 in bank accounts, \$96,735.00 of petty cash on hand, \$571,113.17 in a money market account, and \$23,462,084.58 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1996, cash and cash equivalents consisted of \$12,009,020.98 in bank

**Tennessee Board of Regents
Middle Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

accounts, \$128,385.00 of petty cash on hand, \$661,500.51 in a money market account, and \$31,201,829.75 in the State of Tennessee Local Government Investment Pool.

NOTE 4. DEPOSITS

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the university. Category 1 consists of deposits that are insured or collateralized with securities held by the university or by its agent in the university's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the university's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the university's name.

Some of the university's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1997, the carrying amount of the university's deposits was \$20,113,962.97, and the bank balance including accrued interest was \$21,988,445.43. Of the bank balance, \$21,517,332.26 was category 1, and \$471,113.17 was category 3.

At June 30, 1996, the carrying amount of the university's deposits was \$13,323,644.75, and the bank balance including accrued interest was \$15,144,103.23. Of the bank balance, \$14,582,602.72 was category 1, and \$561,500.51 was category 3.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

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NOTE 5. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The Middle Tennessee State University Foundation is authorized to invest funds in accordance with its board of directors' policies. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt. Certificates of deposit have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name.

June 30, 1997

	<u>Carrying Amount</u>	<u>Market Value</u>
Category 2:		
U.S. government securities	\$ 6,004,182.82	\$ 6,005,609.20
Corporate stocks	5,961,412.25	6,915,419.37
Certificates of deposit classified as investments	<u>6,500,006.00</u>	<u>6,500,006.00</u>
Total investments on the balance sheet	<u><u>\$18,465,601.07</u></u>	<u><u>\$19,421,034.57</u></u>

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June 30, 1996

	<u>Carrying Amount</u>	<u>Market Value</u>
Category 2:		
U.S. government securities	\$ 5,499,963.41	\$ 5,490,632.68
Corporate stocks	4,928,005.84	5,458,431.99
Certificates of deposit classified as investments	<u>653,117.26</u>	<u>653,117.26</u>
Total investments on the balance sheet	<u>\$11,081,086.51</u>	<u>\$11,602,181.93</u>

Funds on deposit with the State Treasurer in unexpended plant consisted of loan proceeds that had not been expended. Assets with trustee in retirement of indebtedness consisted of securities held in the Tennessee State School Bond Authority debt service reserve pool.

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1997, amounted to \$89,096.27 for unexpended plant and \$85,079.25 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1996, amounted to \$578,457.89 for unexpended plant and \$616,403.42 for renewals and replacements.

NOTE 7. NOTES AND BONDS PAYABLE

The Tennessee Board of Regents, on behalf of the university, signed a ten-year promissory note in December 1993 to purchase real property for \$300,000 with a 5% interest rate. This note required quarterly interest-only payments beginning April 1, 1994. The note was retired during the year ended June 30, 1997. The balance owed by the university was \$300,000 at June 30, 1996.

Land purchased for the future site of the Tennessee Miller Coliseum by the foundation was financed by a note. The note bears an interest rate of 8% and is to be repaid over three years. The balance owed as of June 30, 1997, was \$2,000,000.

The university, through the Tennessee State School Bond Authority, issued \$593,819.31 of current refunding bonds to provide resources, along with an equity

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contribution, for the purpose of generating resources to pay principal, current interest, and the call premium on \$646,531.77 of the Series 1987A Refunding Bonds.

Bond issues, with interest rates ranging from 4.1% to 7.0% for Tennessee State School Bond Authority bonds, are due serially to 2026 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations.

The university's debt service requirements to maturity for all bonds payable at June 30, 1997, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$ 865,882.06	\$ 1,013,349.18	\$ 1,879,231.24
1999	911,319.35	969,262.24	1,880,581.59
2000	957,680.64	922,004.55	1,879,685.19
2001	925,226.25	872,039.67	1,797,265.92
2002	858,953.22	822,159.72	1,681,112.94
2003-2026	<u>14,044,848.93</u>	<u>9,940,799.44</u>	<u>23,985,648.37</u>
	<u>\$18,563,910.45</u>	<u>\$14,539,614.80</u>	<u>\$33,103,525.25</u>

Interim and short-term financing for various projects has been secured through the Tennessee State School Bond Authority from the Bond Anticipation Notes (BANs) Program established February 24, 1993, with Prudential Securities, Incorporated, as the underwriter and remarketing agent, to fund projects under construction. Under the BANs Program, the notes will mature on March 1, 1998, and may bear interest at a variable rate (daily, weekly, monthly, quarterly, semiannually, or annually) or a fixed rate (long-term) determined by the remarketing agent for periods selected by the authority. Currently, interest is determined on a weekly basis and payable monthly. The notes are subject to purchase by the remarketing agent on the demand of the holder on any business day pursuant to the conditions established in the Note Resolution, as described in the Official Statement relating to the notes. The remarketing agent is to use its best efforts to sell the notes to another holder. If the agent is unable to resell any notes that have been "put," the standby note purchaser is required, subject to certain conditions, to purchase the notes. A standby note purchase agreement was entered into with Union Bank of Switzerland (UBS) on June 26, 1996, providing liquidity for up to \$105,000,000.00 principal amount of the

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notes with interest coverage for 34 days at the maximum rate of 12%, for a total commitment of \$106,173,699.00. The authority contracted to pay UBS 6 basis points per annum for the utilized portion and 5 basis points per annum for the unutilized portion of the commitment. The agreement was extended effective June 26, 1997, through March 1, 1998, based on a reduced maximum available commitment of \$64,523,273.42. It is expected that a portion of these notes will be redeemed with the proceeds from a sale of bonds at the end of the construction period for the projects being financed. The balance owed by the university was \$6,589,887.14 at June 30, 1997, and \$13,965,000.00 at June 30, 1996.

NOTE 8. PENSION PLANS

A. Defined Benefit Plan

During the year ended June 30, 1997, the university implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for this plan.

Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling (615) 741-8202, extension 139.

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Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 7.36% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 1997, 1996, and 1995, were \$2,400,240.10, \$2,039,363.00, and \$2,022,557.00. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1997, was \$3,059,535.12, which represented 10.05% of the covered payroll, and for the year ended June 30, 1996, was \$2,826,648, which represented 10.04% of the covered payroll. Contributions met the requirements for each year.

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NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. CHAIRS OF EXCELLENCE

The university had \$16,846,443.85 on deposit at June 30, 1997, and \$13,841,624.88 on deposit at June 30, 1996, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 11. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1997, the scheduled coverage for the university was \$275,392,700 for buildings and \$128,285,300 for contents. At June 30, 1996, the scheduled coverage was \$255,496,800 for buildings and \$42,759,200 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is

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performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$25,158,389.29 at June 30, 1997, and \$24,201,479.20 at June 30, 1996.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$108,787.24 and for personal property were \$42,212.34 for the year ended June 30, 1997. Comparative amounts for the year ended June 30, 1996, were \$89,898.90 and \$57,813.22. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1997, outstanding commitments under construction contracts totaled \$15,269,954.99 for utility/infrastructure improve-

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ments, the Library Building, and the Business/Aerospace Building, of which \$10,486,958.79 will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

Questioned Costs - As of June 30, 1997, the university had not resolved \$3,458.00 of questioned costs resulting from prior audits. Final resolution of these questioned costs will be determined by the grantor.

NOTE 13. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1996, library books were valued at \$20 per volume, and other library holdings were valued at various standardized values. The valuations were reassessed at June 30, 1997, and the value for library books was increased to \$48 per volume, and the standardized values for other library holdings were also increased/decreased by various amounts. As a result of the revaluation, library books and other library holdings increased by \$17,732,400 and \$215,868, and net investment in plant, under the investment in plant fund subgroup, increased by \$17,948,268 at June 30, 1997.